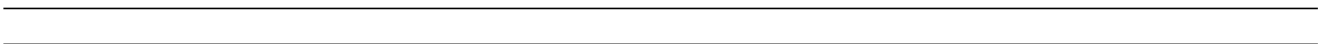


# **NATIONAL ENDOWMENT** for the **ARTS**

 [arts.gov](https://www.arts.gov)

**Office of Inspector General  
Semiannual Report to Congress  
October 1, 2019 – March 31, 2020**



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## MESSAGE FROM THE INSPECTOR GENERAL

During this semiannual reporting period, we issued five audit reports that included \$299,022 in questioned costs and 32 recommendations to improve agency operations and award recipient's stewardship of Federal funds. Through our audit follow-up process, we assisted the National Endowment for the Arts (Arts Endowment) staff and award recipients in clearing 56 recommendations, from prior reports, based on corrective actions taken by them. In addition, we addressed 13 hotline complaints the majority of which helped us to assist citizens avoid scams by individuals fraudulently representing themselves as affiliated with the Arts Endowment.

During this reporting period, we also focused internally to improve our operations by updating our Strategic Plan and website. The website was updated to make it easier to navigate and to ensure it included links to the most current awards management resources. Of particular note, we developed an audit process presentation that included a list of the top findings from our audits of Arts Endowment awardees. The updates to the website are designed to help award recipients and the Arts Endowment improve their programs and operations.

The value-added work that my staff accomplished this period is due to their commitment to excellence, continued growth, and dedicated work effort, along with the support of the Arts Endowment Chairman and her staff. I look forward to continuously working with my staff, the Chairman, and her staff -- promoting economy, efficiency, and effectiveness -- helping to ensure integrity, excellence, and value in the delivery of the Arts Endowment mission.



Ron Stith, CPA  
Inspector General

## **NATIONAL ENDOWMENT FOR THE ARTS**

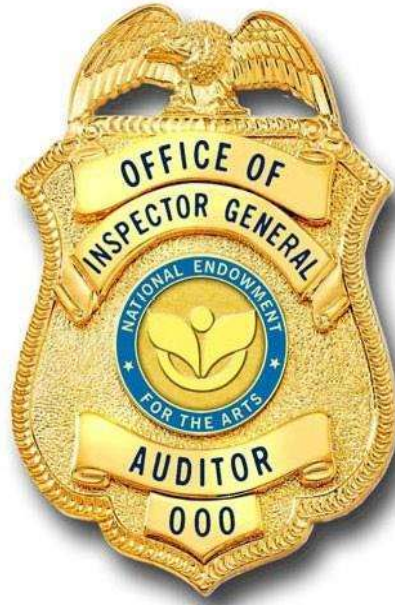
Established by Congress in 1965, the National Endowment for the Arts (Arts Endowment) is an independent Federal Agency whose funding and support give Americans the opportunity to participate in the arts, exercise their imaginations, and develop their creative capacities. The Arts Endowment partners with state arts agencies, local leaders, other Federal agencies, and the philanthropic sector to help deliver its mission. As part of its mission, the Arts Endowment supports arts learning, affirms and celebrates America's rich and diverse cultural heritage, and extends its work to promote equal access to the arts in every community across America.

## **OFFICE OF INSPECTOR GENERAL**

The Inspector General Act of 1978, as amended (IG Act), established Offices of Inspectors General (OIG) within 74 departments and agencies. On October 14, 2008, Congress passed the Inspector General Reform Act of 2008 -- enhancing the independence of Inspectors General and creating a Council of Inspectors General on Integrity and Efficiency (IG Council) to support continuing professional education of OIG staff and to support collaboration between the IGs.

Each Inspector General is required to prepare a semiannual report summarizing the activities of their office for the preceding six-month period. The report by my office is sent to the Arts Endowment Chairman, the National Council on the Arts, and Arts Endowment appropriating and authorizing Congressional committees.

During this six-month period, we had a Memorandum of Understanding (MOU) with the Department of Education OIG to provide investigative services for our office on a reimbursable basis. We also had a MOU with the U.S. Postal Service OIG for legal counsel support.



## **AUDITS, EVALUATIONS, AND RELATED ACTIVITIES**

### **Completed Audit Reports**

Audits completed during this period identified improvements needed in awardee stewardship, including financial reporting accuracy and completeness. Following are summary results of the completed audits.

#### ***Federal Information Security Modernization Act of 2014 (FISMA), Independent Auditor Report of the National Endowment for the Arts, Information Security Program and Practices, Fiscal Year 2019, A-20-01***

As required by FISMA, we completed the annual audit of the Arts Endowment's information security program and practices for its major systems. We contracted with Williams, Adley & Company, LLP (Williams Adley) to perform the FISMA audit for FY 2019. The report was issued on October 30, 2019 and contained 10 recommendations to improve information security. The Art's Endowment concurred with the recommendations and has prepared an action plan to implement the recommendations.

#### ***Report of the National Endowment for the Arts' Compliance with the Digital Accountability Transparency Act of 2014 for First Quarter Fiscal Year 2019, A-20-02***

As required by the DATA Act, we completed the bi-annual audit of Arts Endowment's compliance with data standards established by the Department of Treasury and OMB. We contracted with Williams, Adley to perform the audit, and an audit report was issued on November 8, 2019. The audit concluded that, overall, the Arts Endowment's FY 2019, Quarter 1 submission for publication on USAspending.gov was timely, substantially complete, and the data was of higher quality.

However, the audit identified two areas that the Arts Endowment can improve to strengthen controls surrounding its DATA Act compilation process related to financial assistance awards. The report included two recommendations for improvements in these areas. The recommendations, if properly implemented, could further improve the accuracy, completeness, and timeliness of the Arts Endowments data submissions. Arts Endowment management agreed with the recommendations and has developed an action plan for implementation.

***FY 2019 Audit of the National Endowment for the Arts Financial Statements, A-20-03***

The Accountability of Tax Dollars Act of 2002 requires the OIG or an independent external auditor, as determined by the Inspector General, to annually audit the agency financial statements. We contracted with Williams, Adley to perform the audit. The 2019 Financial Statement Audit report was issued November 14, 2019, and resulted in an unmodified opinion.

The audit identified a need for stronger internal controls in the human resources directorate. The Arts Endowment agreed with the audit and prepared an action plan to address this finding and related recommendation. The audit also identified new written procedures and improved controls over the grant accruals accounting estimation process and the process for transfer of financial data to the Department of Treasury and the Office of Management and Budget. As a result, 6 recommendations from the prior year audit were cleared.

***Report of Information System Security Review, A-20-04***

Based on a referral to the OIG, we contracted with RMA Associates, LLC to conduct a review of information security controls and to determine the cause of information security control incidents. The review resulted in a report issued on February 19, 2020. The review identified internal control security weaknesses in the Art's Endowments information system, and the report includes five recommendations to address these findings. Arts Endowment management agreed with the recommendations and has established a corrective action plan for implementation.

***Performance Audit Report on Selected Awards to The Writer's Center  
Bethesda, MD, Report No. OIG-20-01***

Based on our audit, we concluded that the Writer's Center (the Center) generally complied with financial management system and recordkeeping requirements established by the Office of Management and Budget (OMB) and the Arts Endowment. However, we identified some areas requiring improvement. For instance, the Center:

- Did not meet Federal requirements for allocating employee pay to Arts Endowment awards.
- Included unallowable costs on one of its award Federal Financial Reports (FFR).
- Included unallowable travel and excess travel costs on three of its award FFRs.
- Did not verify debarment and suspension eligibility of potential Federal funds recipients.
- Did not maintain a Section 504 Self-Evaluation on file during the award period.

We also identified \$299,022 in questioned costs, and the report included 10 recommendations to help the Center improve its compliance with Federal award management requirements. The report also included four recommendations to the Arts Endowment regarding allowability of costs.

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### **Audit Resolution and Corrective Actions**

At the beginning of the reporting period, there were 96 open recommendations from prior audit reports. During this reporting period, we issued 34 new recommendations and closed 56 recommendations, leaving 74 open recommendations at the end of this reporting period -- March 31, 2020. Corrective actions are in process.

### **Reports Issued with Questioned Costs**

There was one report issued with \$299,022 in questioned costs during the reporting period (see Table 3, page 10).

### **Reports Issued with Recommendations that Funds Be Put to Better Use**

There were no reports issued with recommendations that funds be put to better use during the reporting period (see Table 2, page 9).

### **Reports Issued with Recommendations Open for More Than 180 days**

As of March 31, 2020, there were 5 reports with 40 recommendations open for more than 180 days. Corrective actions for these recommendations are in process (see Table 4, page 11).

### **Audits and Other Activities Planned or In-Process**

In March 2020, we completed a risk-based analysis of Arts Endowment awardees and solicited input from Agency employees to develop a strategic plan of audits for calendar year 2020. The resulting plan included 11 awardees to audit, with a total award value of \$28,431,522.

As of March 31, 2020, we had 4 award audits and 3 internal audits in process that we expect to complete during the six-month period ending September 30, 2020. In addition, we will be starting two legislatively mandated audits that we expect to complete by November 30, 2020. Following is a summary of the objectives of the mandatory audits.

#### ***Audit of the National Endowment for the Arts' Financial Statements***

The OIG oversees the annual financial statement audit required under the Accountability of Tax Dollars Act of 2002. We contracted with Williams, Adley to perform the audit. The purpose of the audit is to express an opinion on the accuracy and completeness of the Arts Endowment financial statements for the fiscal year ended September 30, 2020. The audit also tests the internal controls over financial reporting and assesses compliance with selected laws and regulations.

#### ***Audit of the National Endowment for the Arts' Compliance with the Federal Information Security Modernization Act of 2014 (FISMA)***

The FISMA requires the OIG to conduct an annual audit of its Agency's information security program and practices. We contracted with Williams Adley to conduct the FISMA audit, which includes evaluating the adequacy of the Agency information security program and practices for its major systems. The FISMA report will be submitted to OMB by October 31, 2020.

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## **INVESTIGATIVE ACTIVITIES**

The IG Act authorizes my office to receive and investigate allegations of employee misconduct, fraud, waste and abuse occurring within the Arts Endowment's programs and operations. Investigative activities tend to be reactive and initiated based on reports of possible fraud, ethics violations, and other issues of integrity, including possible wrongdoing referred by Arts Endowment employees, other government agency employees, and the public. During this period, our investigative needs were met through a Memorandum of Understanding with the Department of Education OIG.

### **Criminal, Civil and Administrative Actions**

Reported incidents of possible fraud, ethics violations, and other integrity issues can give rise to criminal, civil or administrative investigations. The IG Act requires my office to refer matters to the U.S. Department of Justice whenever there are reasonable grounds to believe there has been a violation of Federal criminal law. We did not have any Administrative Actions during this semiannual period, and we did not refer any matters to the U.S. Department of Justice to consider for prosecution.

### **Hotline**

During this reporting period, the OIG received and evaluated 13 hotline complaints. The evaluations enabled us to close 12 complaints and to primarily assist complainants to avoid being defrauded by individuals fraudulently claiming to represent the Arts Endowment. One other complaint remains open and is being evaluated for appropriate action.

## **OTHER ACTIVITIES**

### **Activities within the Inspector General Community**

Activities that affect the IG community are typically coordinated by the IG Council. The IG Council also develops and delivers training for the IG community, and each OIG contributes a portion of its budget to support IG Council operations. Furthermore, the IG Council holds monthly meetings to discuss and vote on matters impacting the IG community. Each IG is a voting member of the IG Council.

The IG Council continues to populate Oversight.gov, a website that provides a “one stop shop” to follow the ongoing oversight work of all OIGs that publicly post reports. With the launch of Oversight.gov, users can now sort, search, and filter the site’s database across agencies to find reports covering their areas of interest.

### **Significant Management Decisions**

Section 5(a)(11) of the IG Act requires that OIG disagreements with significant management decisions be reported in the semiannual report to Congress. Section 5(a)(12) of the IG Act also requires that any management decision changing their response to a significant resolved audit finding must be disclosed in the semiannual report. For this reporting period, there were no OIG disagreements with management decisions, and management did not revise any earlier decisions on our audit recommendations.

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## **Access to Information**

Section 6(b)(2) of the IG Act requires the IG to report to the Agency head, without delay, if the IG believes that access to required information, records or assistance has been unreasonably refused, or has not been provided. Section 5(a)(5) of the IG Act requires that reports to the Agency head about any refusal or delay in accessing records be summarized in the semiannual report. During this reporting period, the OIG did not have a problem obtaining assistance or access to Agency records.

## **Review of Legislation and Regulations**

Section 4(a)(2) of the IG Act requires that the OIG review and comment on proposed legislation or regulations relating to the Agency or, affecting our operations. During this reporting period, we did not review any proposed legislation.

## **Peer Review Activity**

Section 989C of the Dodd-Frank Act contains additional semiannual reporting requirements pertaining to peer review reports. Federal IGs are required to engage in peer review activities related to both their audit and investigative operations. Peer reviews are conducted on a three-year cycle and evaluate an OIG audit organization's systems of quality control, in accordance with the IG Council's *Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*.

These guidelines are based on requirements in the Government Accountability Office's *Government Auditing Standards*. Federal audit organizations can receive a rating of pass, pass with deficiencies, or fail. Conforming to Section 989C, we are reporting the following information related to our peer review activities.

The U.S. Commodity Futures Trading Commission OIG conducted our most recent Peer Review for the three-year period ending March 31, 2019. We did not have any investigations during this period; therefore, no investigative peer review was conducted. The Audit Peer Review report was issued August 2019, and concluded that our audit organization's system of quality control complied with Government Auditing Standards. We received a Peer Review rating of "pass." The report is posted at [www.arts.gov/oig/reports/external-peer-reviews](http://www.arts.gov/oig/reports/external-peer-reviews).

We provided copies of the Peer Review report to the Chairman, National Council on the Arts, the Inspector General Council Chairman, and Audit Committee Chair. We also posted the report on our website at [www.arts.gov/oig](http://www.arts.gov/oig). Our next peer review is scheduled to be conducted by the National Labor Relations Board OIG, covering the three-year period ending March 31, 2022.

## **OUTREACH AND AWARENESS**

### **Website**

We maintain an ongoing internet presence at <https://www.arts.gov/oig> to inform Arts Endowment employees, awardees, and the public of our mission and to post the results of our work as required by the IG Act. During this semiannual reporting period, we updated our website content to ensure we included resources to assist the Arts Endowment and its awardees

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in achieving excellence in delivery of the Arts Endowment mission, in particular through high quality stewardship of Federal award funding.

### **Consultations with the National Council on the Arts and Congress**

The IG Act directs Inspectors General to keep the Head of the Establishment and Congress fully and currently informed. For purposes of the IG Act, the National Council on the Arts (the Council) is the Head of the Establishment. To address this requirement, the IG has biweekly meetings with the Council Chairman and attends Council meetings as necessary. Also, we provide semiannual reports summarizing OIG work to the Council Chairman and its members and to the Congress.

**TABLE 1: SUMMARY OF REPORTS ISSUED  
DURING THE REPORTING PERIOD**

<b>Report No.</b>	<b>Report Date</b>	<b>Report Title</b>	<b>Questioned Costs</b>	<b>Funds Put To A Better Use</b>
A-20-01	Oct. 30, 2019	Fiscal Year 2019 Evaluation of National Endowment for the Arts' Compliance with the Federal Information Security Modernization Act of 2014	\$0	\$0
A-20-02	Nov. 8, 2019	Report on the National Endowment for the Arts' Compliance with the Digital Accountability Transparency Act of 2014 for First Quarter Fiscal Year 2019	0	0
A-20-03	Nov. 11, 2019	Financial Statement Audit	0	0
A-20-04	Feb. 19, 2020	Information System Security Review	0	0
OIG-20-01	Feb. 27, 2020	The Writer's Center	299,022	0
<b>TOTAL</b>			<b>\$299,022</b>	<b>\$0</b>

**TABLE 2: INSPECTOR GENERAL ISSUED REPORTS  
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

		Number of Reports	Dollar Value
A.	For which no management decision has been made by the commencement of the reporting period	0	\$0
B.	Which were issued during this reporting period	0	0
C.	For which a management decision was made during the reporting period	0	0
	(i) dollar value of recommendations that were agreed to by management	0	0
	- based on proposed management actions	0	0
	- based on proposed legislative action	0	0
	(ii) dollar value of recommendations that were not agreed to by management	0	0
D.	For which no management decision has been made by the end of the reporting period	0	0
E.	Reports for which no management decision was made within six months of issuance	0	0

**TABLE 3: INSPECTOR GENERAL  
ISSUED REPORTS WITH QUESTIONED COSTS**

		Dollar Value		
	Number of Reports	Questioned Costs	Potential Refunds	
A.	For which no management decision has been made by the commencement of the reporting Period	5	\$ 1,370,592	\$510,783
B.	Which were issued during the reporting period	1	299,022	291,061
	Subtotals (A+B)	6	1,669,614	801,844
C.	For which a management decision was made during the reporting period	3	490,864	200,736
	(i) dollar value of the disallowed costs	3	490,864	200,736
	(ii) dollar value of the cost not disallowed	0	0	0
D.	For which no management decision was made by the end of the reporting period	3	1,178,750	601,108
E.	Reports for which no management decision was made within six months of issuance	2	879,728	310,047

**TABLE 4: REPORT RECOMMENDATIONS WITH CORRECTIVE ACTIONS NOT COMPLETED WITHIN 180 DAYS**

<b>Report Number</b>	<b>Report Date</b>	<b>Report Title</b>	<b>Open Recommendations</b>
LS-13-02	Mar 1, 2013	Limited Scope Audit Report on selected NEA Grants to Music-Theatre Group	5
LS-18-02	Aug 2, 2018	The American Architectural Foundation	18
LS-19-06	Aug. 28, 2019	Education Commission of the States	11
LS-19-01	Oct 18, 2018	Mainstreet Uptown Butte, Inc.	3
A-19-01	Oct 31, 2018	FY2018 Evaluation of NEA Compliance with The Federal Information Security Modernization Act of 2014	3
TOTAL OPEN RECOMMENDATIONS			40

**TABLE 5: INVESTIGATIVE AND ADMINISTRATIVE ACTION DATA**

<b>Civil/Criminal Investigative/Administrative Activities</b>	<b>Number of Actions</b>
Referrals to Prosecutors	0
Civil Settlements	0
Investigative Recoveries	0
Debarments/Suspensions	0
Administrative Actions	0
<b>Hotline Contacts</b>	
Telephone Calls	2
Email	10
Standard Mail	1
Referred by Other Sources	0
Referred to Other Sources	0
In Assessment Process for Possible Action	1
Closed	12
<b>Total Hotline Contacts</b>	<b>13</b>
<b>Freedom of Information Act Requests</b>	
Requests Received	0
Requests Processed or Referred	0
<b>Total</b>	<b>0</b>



**TABLE 6: SUMMARY OF INSPECTOR GENERAL REPORTING REQUIREMENTS**

<b>IG ACT Reference</b>	<b>Reporting Requirement</b>	<b>Page(s)</b>
Section 4(a)(2)	Review of legislation and regulations	7
Section 5(a)(1)	Significant problems, abuses and deficiencies	2-5
Section 5(a)(2)	Recommendations with respect to significant problems, abuses and deficiencies	2-5
Section 5(a)(3)	Prior significant recommendations on which corrective actions have not been completed	5, 14
Section 5(a)(4)	Matters referred to prosecutive authorities	5
Section 5(a)(5)	Summary of instances where information was refused	5
Section 5(a)(6)	List of audit reports by subject matter, showing dollar value of questioned costs and funds put to better use	11
Section 5(a)(7)	Summary of each particularly significant report	2-4
Section 5(a)(8)	Statistical tables showing number of reports and dollar value of questioned costs	12
Section 5(a)(9)	Statistical tables showing number of reports and dollar value of recommendations that funds be put to better use	13
Section 5(a)(10)	Summary of each audit report issued before this reporting period for which no management decision was made by the end of the reporting period	13
Section 5(a)(11)	Significant management decisions	5
Section 5(a)(12)	Significant management decisions with which the inspector general disagrees	5
Section 6(b)(2)	Access to information	5
Section 989C	Peer Review—Sec. 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law 111-203) requires Inspectors General to include the results of any peer review conducted by another Office of Inspector General during the reporting period; or if no peer review was conducted, a statement identifying the date of the last peer review.	6

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## OIG FUNCTIONS

### **WE PERFORM THE FOLLOWING FUNCTIONS:**

**Performance Audits** are used to assess the efficiency, effectiveness, and economy of Arts Endowment programs, activities, and functions; provide information to responsible parties to improve public accountability; facilitate oversight and decision making; and initiate corrective actions as needed. These audits also consider compliance with applicable laws and regulations, and soundness of the internal organizational and operational controls.

**Financial Audits** provide an independent assessment of whether an entity's reported financial condition, results, and use of resources are presented fairly and in accordance with generally accepted accounting principles.

**Limited Scope Audits** involve a limited review of financial and non-financial information of award recipients to ensure validity and accuracy of reported information, and compliance with state and Federal requirements.

**Investigations** are conducted based on alleged or suspected fraud, waste, abuse or gross mismanagement, employee and contractor misconduct, and criminal and civil violations of law that have an impact on Arts Endowment programs and operations. The OIG refers matters to the U.S. Department of Justice whenever there is reasonable grounds to believe there has been a violation of Federal criminal law. The OIG also identifies fraud indicators and recommends measures to management to improve the Agency's ability to protect itself against fraud and other wrongdoing.

**Awareness Briefings and Bulletins** are presented to Arts Endowment management, staff, and awardees to promote greater knowledge and understanding of potential or actual conditions, vulnerabilities, opportunities for improvement, or loss prevention. Briefings may be used internally or with stakeholders in lieu of formal reports.

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**HELP PROMOTE INTEGRITY, ECONOMY AND EFFICIENCY  
REPORT SUSPECTED FRAUD, WASTE,  
ABUSE OR MISMANAGEMENT**

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OFFICE OF INSPECTOR GENERAL  
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**OIG@ARTS.GOV**

**Complaints may be made anonymously. However, we would have no way of contacting you. Any Information you provide will be held in confidence unless disclosure is required by law. Providing your name and means of communicating with you may increase our ability to investigate your complaint.**